

Message Text

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44

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-02

H-02 PA-02 PRS-01 USIA-15 ARA-10 /120 W

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R 021755Z MAY 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0799

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 06712

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MAY 2

BEGIN SUMMARY: DEMAND CONTINUES TO WEAKEN, OUTPUT TO FALL,
UNEMPLOYMENT, WAGES, AND PRICES TO RISE IN THE UK.

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CHANCELLOR HEALEY CONTINUES TO REPEAT HIS STRONG WARNINGS

ON WAGE ESCALATION, WHICH IS THE MAJOR CAUSE OF PRESENT UK INFLATIONARY PRESSURES. COUPLED WITH THIS, HEALEY STATED IN PARLIAMENT THAT HE DID NOT WISH TO SEE FURTHER DEPRECIATION OF STERLING, BUT UNLESS THE INFLATION RATE IS BROUGHT INTO LINE WITH THE UK'S OTHER TRADING PARTNERS, CONTINUED DOWNWARD PRESSURE ON THE POUND IS INEVITABLE. ANY ACTION BY THE GOVERNMENT TO REDUCE INFLATIONARY PRESSURES WILL, IN ALL LIKELIHOOD, AWAIT THE END OF THE PRESENT WAGE ROUND IN JUNE AND THE EC REFERENDUM, ALSO IN JUNE. END SUMMARY

1. HOUSING. HOUSING STARTS FELL BY 2,000 UNITS IN MARCH OVER FEBRUARY (21,000/23,000). THE FIGURE FOR MARCH 1974 WAS 23,000. THE MAJOR PART OF MARCH HOUSING STARTS COME FROM THE PUBLIC SECTOR. NEW ORDERS FOR PRIVATE RESIDENTIAL HOUSING FELL IN FEBRUARY OVER JANUARY, BUT OVERALL NEW ORDERS ROSE WITH A SURGE OF PUBLIC SECTOR ORDERS HELD UP BY A MORATORIUM IN JANUARY.

2. INVENTORIES. THE BUYING BOOM THAT PRECEDED THE MAY 1 RISE IN VAT ON MOST DURABLE AND LUXURY GOODS HAS REDUCED RETAILER INVENTORIES. THERE APPEARS NO EVIDENCE, HOWEVER, THAT THIS HAS PROVOKED NEW ORDERS TO WHOLESALERS OR PRODUCERS.

3. CHILE DEBTS. OWING TO THE LABOR GOVERNMENT'S REFUSAL TO RESCHEDULE CHILE'S 1975 DEBT PAYMENTS TO THE UK, THE EXPORT CREDITS GUARANTEE DEPARTMENT WILL, THIS MONTH, BEGIN TO REIMBURSE BRITISH EXPORTERS WHO ARE INSURED AGAINST DEFAULT. NORMALLY, THE ECGD BEGINS INITIAL REIMBURSEMENT FOUR MONTHS AFTER DEFAULT; THIS PERIOD HAS NOW LAPSED FOR THOSE PAYMENTS DUE EARLY IN 1975. IT IS ESTIMATED THAT CHILE'S 1975 DEBT OBLIGATION TO THE UK FOR GOODS AND SERVICES AMOUNTS TO APPROXIMATELY 13 MILLION POUNDS, THE BULK OF WHICH IS COVERED BY ECGD INSURANCE.

4. UK EXCHANGE RATE POLICY. ON THURSDAY, MAY 1, CHANCELLOR HEALEY ANNOUNCED IN PARLIAMENT THAT HE DID NOT WISH TO SEE ANY FURTHER DEPRECIATION OF STERLING IN THE FOREIGN EXCHANGE MARKETS. THIS FOLLOWED A PRESS REPORT ON SUNDAY, UNCLASSIFIED

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APRIL 28, THAT THE TREASURY WAS AIMING AT AN ADDITIONAL 4 TO 5 PERCENT EFFECTIVE DEPRECIATION (BELOW THE 21.7 PERCENT LEVEL RECORDED AROUND THE APRIL 15 BUDGET). THE TRADE WEIGHTED DEPRECIATION OF STERLING HAS WIDENED BY ABOUT 1 PERCENT OVER THE LAST TWO WEEKS IN WHAT HAS BEEN DESCRIBED AS "RELATIVELY QUIET MARKETS." HEALEY WARNED, HOWEVER, THAT "UNLESS AND UNTIL WE BRING DOWN THE RATE OF INFLATION IN THE UK TO THAT OF OUR MAIN TRADING PARTNERS,

THERE WILL OBVIOUSLY CONTINUE TO BE A RISK OF STRONGLY
ADVERSE MARKET PRESSURE ON THE RATE."

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H-02 PA-02 PRS-01 USIA-15 ARA-10 /120 W

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R 021755Z MAY 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0800

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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5. EXCHANGE RATE AND GOLD:

	4/24	5/1	CHANGE
EXCHANGE RATE	\$2.3600	\$2.3485	DOWN \$0.0115
EFFECTIVE DEPRECIATION			
(PERCENT)	22.5	22.8	WIDENED 0.3

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GOLD	\$167.25	\$166.00	DOWN \$1.25
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6. FORWARD DISCOUNT ON STERLING:

	4/24	5/1	CHANGE
1 MONTH	1.10	1.20	UP 0.10
3 MONTHS	3.20	3.40	UP 0.20
6 MONTHS	6.20	6.40	UP 0.20

(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES:

	4/24	5/1	CHANGE
1 MONTH	6-1/4	5-5/8	DOWN 5/8
3 MONTHS	7	6-7/8	DOWN 1/8
6 MONTHS	8	7-7/8	DOWN 1/8

8. LOCAL AUTHORITY DEPOSIT RATES:

	4/24	5/1	CHANGE
1 MONTH	9-1/2	9-1/2	UNCHANGED
3 MONTHS	9-5/8	10-1/16	UP 7/16
6 MONTHS	9-7/8	10-3/8	UP 1/2

9. THE MINIMUM LENDING RATE, WHICH HAS BEEN STEADILY REDUCED SINCE THE BEGINNING OF THE YEAR, WAS INCREASED BY 1/4 PERCENT TO 10 PERCENT ON FRIDAY, MAY 2. THIS WILL UNDOUBTEDLY HAVE IMPACT IN THE LONDON FINANCIAL COMMUNITY WHERE BASE LENDING RATES WERE CUT BY 3/4 PERCENT ONLY LAST WEEK.

RICHARDSON

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EO Systematic Review
05 JUL 2006

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